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The Quaker Oats Company Annual Report
Fiscal Year Ending June 30, 1974

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QUAKER

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Dividend Reinvestment

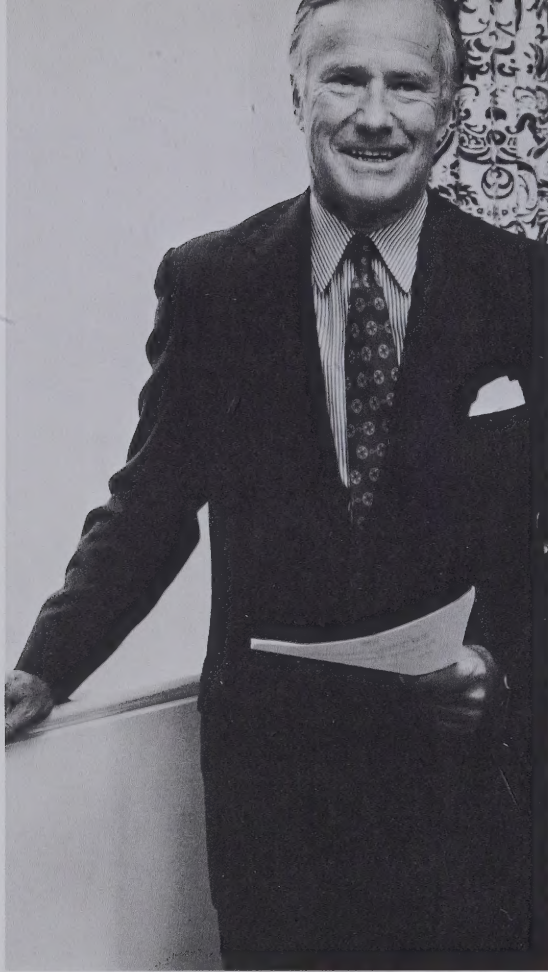
A voluntary Automatic Dividend Reinvestment Service, established in 1971, provides a simple and inexpensive way for shareholders in Quaker common stock to put dividends to work promptly through reinvestment in additional shares. Dividends are immediately invested for participating shareholders, generating more income and increasing your holdings. If you wish, you may also make voluntary cash investments. For information about this service or any other matter regarding Quaker stock, please contact: Office of the Secretary, The Quaker Oats Company, Merchandise Mart Plaza, Chicago, Illinois 60654. The phone is (312) 222-6751.

Financial Highlights

Year Ended June 30	1974	Thousands of Dollars	
		1973	Percent Increase (Decrease)
Net sales	\$1,227,345	\$990,767	23.9
Operating income	97,679	96,466	1.3
Interest expense (net)	21,201	10,917	94.2
Income before income taxes	76,478	85,549	(10.6)
Net income	39,878	42,123	(5.3)
Preferred dividends declared	429	452	(5.1)
Common dividends declared	15,723	14,711	6.9

	Per Share		
Net income per common share	\$1.91	\$2.04	(6.4)
Preferred dividends declared	3.00	3.00	—
Common dividends declared	.76	.72	5.6

	Common Stock		
Average shares outstanding	20,675,175	20,465,855	1.0



To Our Shareholders and Employees

In a year characterized by severe inflation throughout the world, Quaker's unit volume and dollar sales were up substantially, but earnings and return on investment did not meet expectations. This was the first year in a decade that net earnings, excluding extraordinary items, have not increased.

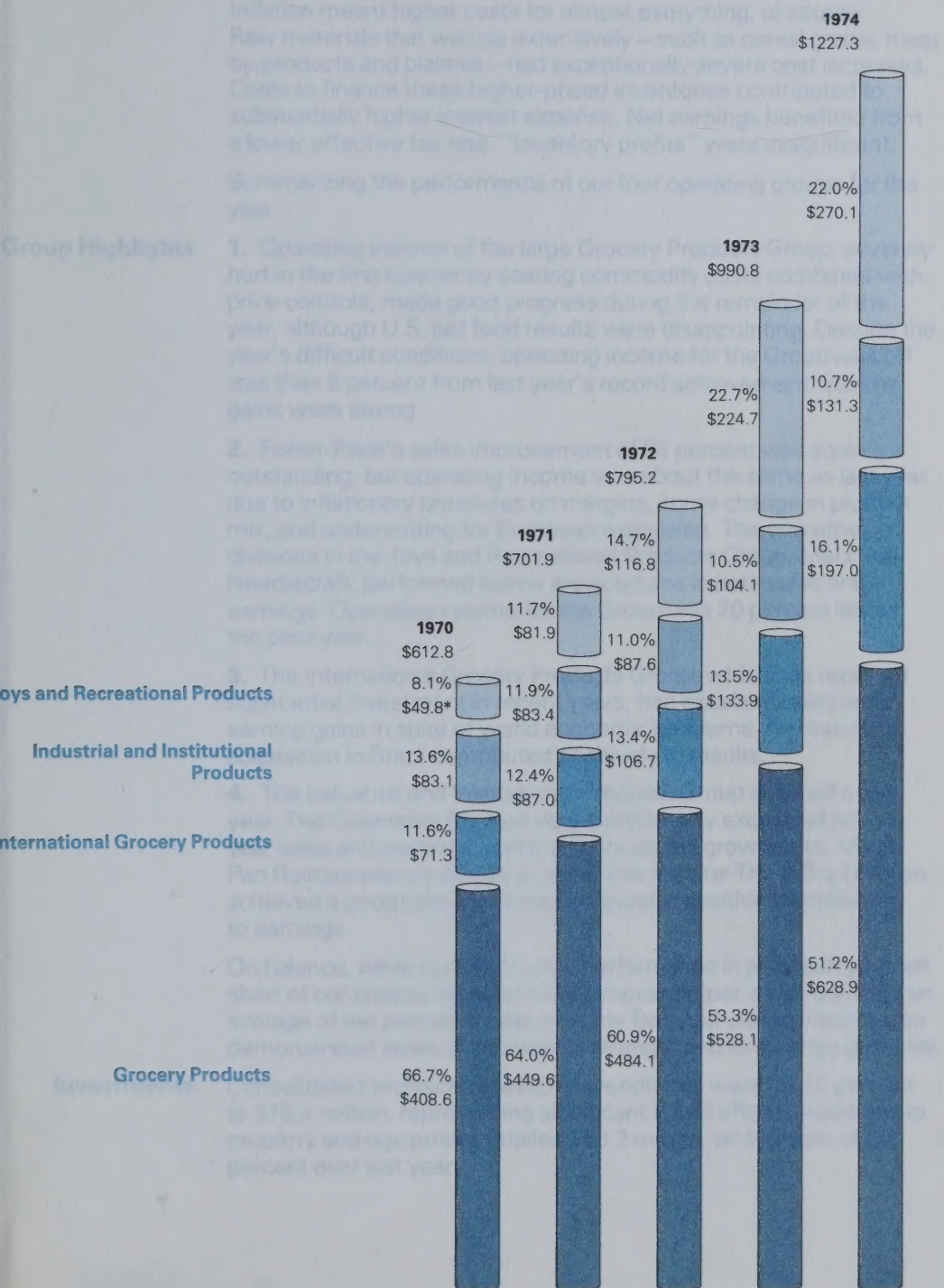
Earnings

Earnings showed significant improvement as the year progressed; but we were unable to make up the shortfall of the first half, when operating profits in our domestic grocery products and toy businesses were adversely affected by escalating costs and restrictive price controls.

Consolidated Sales Growth by Operating Groups

Sales in Millions of Dollars

*Includes Fisher-Price ten months after acquisition



Inflation meant higher costs for almost everything, of course. Raw materials that we use extensively — such as cereal grains, meat by-products and plastics — had exceptionally severe cost increases. Costs to finance these higher-priced inventories contributed to substantially higher interest expense. Net earnings benefited from a lower effective tax rate. "Inventory profits" were insignificant.

Summarizing the performance of our four operating groups for the year:

Group Highlights

1. Operating income of the large Grocery Products Group, severely hurt in the first quarter by soaring commodity costs combined with price controls, made good progress during the remainder of the year, although U.S. pet food results were disappointing. Despite the year's difficult conditions, operating income for the Group was off less than 6 percent from last year's record achievement. Volume gains were strong.
2. Fisher-Price's sales improvement of 39 percent was again outstanding, but operating income was about the same as last year due to inflationary pressures on margins, some change in product mix, and underwriting for European expansion. The two other divisions in the Toys and Recreational Products Group, Marx and Needlecraft, performed below expectations in both sales and earnings. Operating income for the Group was 20 percent below the prior year.
3. The International Grocery Products Group, which has received substantial investment in recent years, had excellent sales and earning gains in spite of world economic problems. An important acquisition in Brazil contributed positively to results.
4. The Industrial and Institutional Products Group also had a fine year. The Chemicals Division very substantially exceeded prior year sales and earnings, continuing its strong growth rate. Magic Pan Restaurants continued to show fine results. The Burry Division achieved a good sales increase and made a positive contribution to earnings.

On balance, while company-wide performance in a difficult year fell short of our continuing objective of improving per-share earnings an average of ten percent a year over any five-year period, results also demonstrated areas of substantial strength and long-range potential.

Investments

Consolidated technical research expenditures were up 10 percent to \$15.4 million, representing significant R & D efforts. Additions to property and equipment totalled \$68.2 million, an increase of 30 percent over last year.

Financing

Interest expense increased 79 percent to \$23.1 million from \$12.9 million in the prior year, as we coped with the combination of higher interest rates and expanded borrowing requirements.

To meet the capital demands of our larger business, at year-end we placed \$25 million of 8¾% notes, due in 1994, with an institutional lender, and are negotiating with another institutional lender for an additional \$25 million. We also signed a \$50 million three-year revolving-credit agreement, and increased our domestic lines of credit from \$50 million to about \$110 million.

People and Public Responsibility

Company employment around the world totals more than 25,400. Tougher business conditions demand a higher level of response, for which we believe our people are prepared. The importance of people to our performance is illustrated in part by the special section beginning on page 18.

Quaker continued its long-standing emphasis on applying corporate strengths to progress in society. Increasingly, there is no distinction between this facet of the Company's life and its normal operations.

Food shortages in many parts of the world, when combined with inadequate reserve stocks and erratic weather patterns, continue to make commodity markets unusually volatile and difficult to forecast, and consumer food prices a family budget problem. Current national and international efforts to develop improved world food policies are useful, but solutions will be exceedingly complex.

As this report is written, there are an unusual number of uncertainties ahead. The satisfactory resolution of the U.S. political crisis is very encouraging. However, strong monetary and fiscal restraints are essential to cool the serious inflation that is continuing to impact on the global economy. We must develop the discipline to stay with the battle against inflation, and at the same time be creative and compassionate so the burden does not fall principally on those who can least afford it.

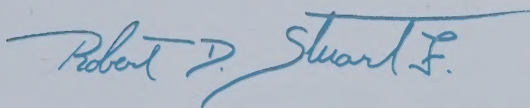
Management Strategy

In managing our affairs at Quaker, we are being very selective in spending fixed capital on areas where substantial opportunities are perceived. In all profit centers we are emphasizing better utilization of working capital to improve return on total invested capital.

Uncertain economic and commodity conditions could cause fluctuations in short-term earnings. We continue to emphasize the importance of long-range company results and to caution against placing undue emphasis on quarterly figures. Our strategy will be to manage so as to optimize the earnings and market strengths of our basic businesses and invest in the most promising growth opportunities.

Fortunately, our basic businesses are very sound. We believe our products continue to represent excellent values and will have relatively high priority in more selective purchasing decisions as consumers face higher prices on virtually everything they buy.

The strong volume and market-share trends of most of our major businesses are very encouraging. A number of high-potential areas are achieving or exceeding goals set for them. Margins have made progress against inflationary costs. And importantly, we believe that the experience gained in dealing with the problems of the past year has further strengthened our management's capabilities to move the Company ahead.

A handwritten signature in blue ink, reading "Robert D. Stuart, Jr." with a stylized, flowing script.

Robert D. Stuart, Jr.
President and Chief Executive Officer

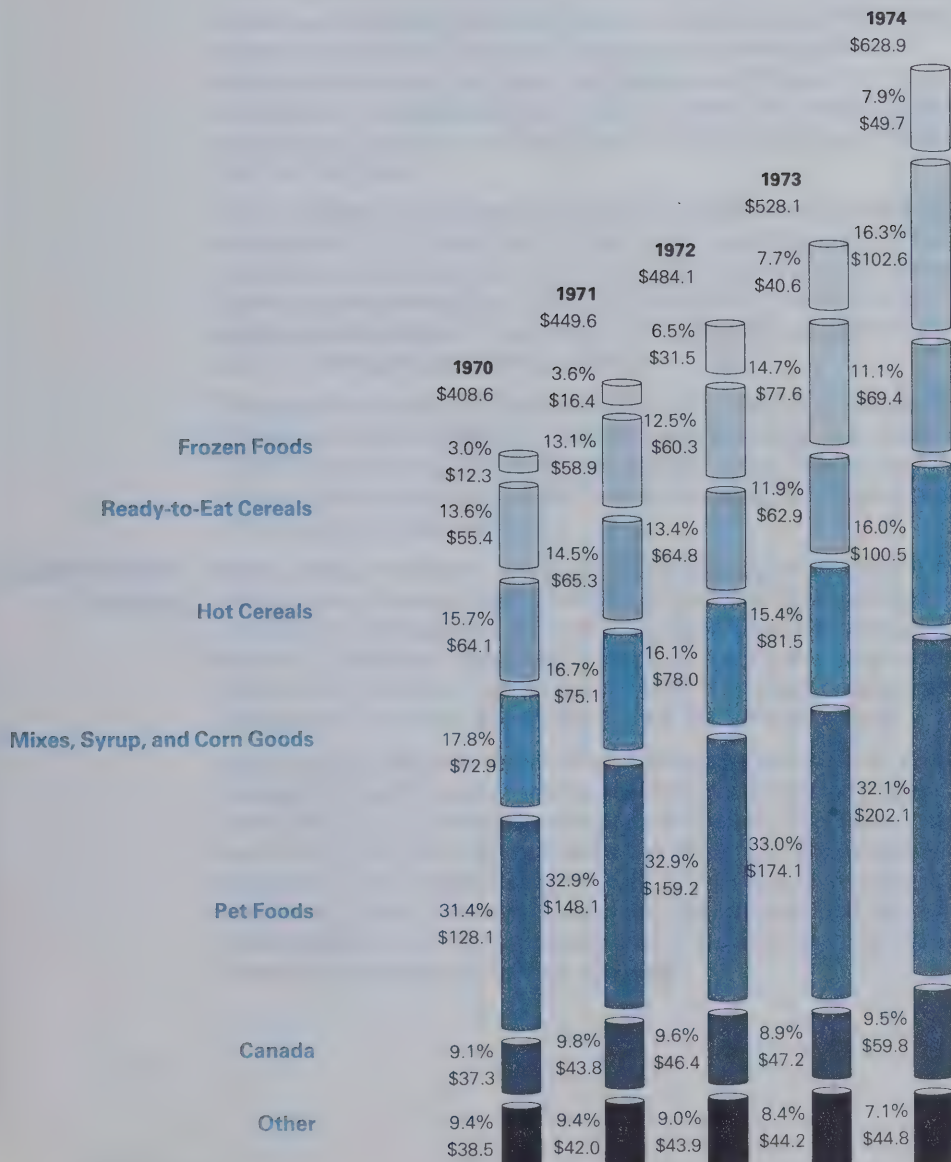
August 28, 1974

These are some of the warm, friendly brands that are the cornerstone of our Grocery Products business.



Grocery Products Group

Sales in Millions of Dollars



Grocery Products Group

The large U.S. and Canadian Grocery Products Group produced about half of the Company's sales and operating income. Sales were up substantially. Inflationary cost increases in cereal grains and pet food ingredients, and the inability to increase U.S. prices under price controls until late in the first quarter, were the principal factors behind a modest decline in Group operating income for the full year. Achievement of these results under difficult conditions is a good sign of the Group's strength and potential.

Three significant new product entries in the U.S. — 100% Natural Cereal and Celeste pizza nationally and Puss 'n Boots Moist Meals in regional markets — received heavy market introduction expenditures during the year, and gained solid consumer acceptance. These distinctive products reflect the research and development skills at our Barrington, Illinois, laboratories that are vital for the future.

Unfortunately, cost pressures have not abated from the very high levels in the 1974 fiscal year. In that year, our average costs for oats, corn and wheat were 40 percent, 57 percent and 99 percent higher, respectively, than in the prior fiscal year — to cite some prominent examples. There is also dramatic cost escalation in areas such as packaging and transportation.

The price increases we have been forced to take to offset cost increases such as these are a serious concern to us. However, still further price increases will be unavoidable unless there is a change in the inflationary increases of the commodities and materials on which our business depends.

Cereals & Mixes Division

Major products of the Cereals and Mixes Division benefited from a consumer shift away from other foods, such as meat and eggs, whose retail prices were rising at high rates. Total Division sales were up 23 percent. Despite the inability to recover costs under price controls early in the fiscal year, profit contribution improved significantly and was off only slightly for the year as a whole.

Quaker 100% Natural Cereal, the brand leader in the new "natural" category of ready-to-eat cereals, achieved national distribution during the year. Competitive activity continues to be intense, both from traditional cereal competitors and from two companies not previously in the cereal business. Cap 'n Crunch sales increased substantially and, although Life was off somewhat, Quaker's share of the ready-to-eat cereal market, both in pounds and in dollars, increased significantly to an all-time high.

Sales of hot cereals — traditional Quaker Oats and Quaker Instant Oatmeal — improved during fiscal 1974, an indication of consumer recognition of good nutrition at modest cost.

Sales of cornmeal products and pancake mixes and syrup were also up sharply, with good volume increases underscoring the strength of these large basic businesses.

Record sales and earnings were achieved by the Company's regional Wolf Brand chili business.

Frozen Foods Division

The U.S. Frozen Foods business made good progress, with a sales increase of 22 percent and significant improvement in operating results, well in line with long-term objectives.

Celeste frozen pizza, now available nationally in the U.S., continues to be the quality brand leader in most of its established markets.

The Aunt Jemima brand remains the market leader in the Frozen Waffle/French Toast category of the frozen toaster goods market, despite heavily increased competitive activity.

Pet Foods Division

Pet Food sales were up 16 percent, but sharply rising ingredient and container costs resulted in a significantly lower profit contribution.

Both Ken-L Ration canned dog food and Puss 'n Boots canned cat food strengthened their respective leading brand positions in the maintenance category. Ken-L Ration Burger and Cheeseburger continued to gain volume in the important semi-moist category.

There has been very encouraging consumer reaction to our new semi-moist cat food product, Puss 'n Boots Moist Meals, which was introduced into approximately 25 percent of the U.S. in February.

Canada

Although there were no government price controls, results of The Quaker Oats Company of Canada Limited were affected by many of the same inflationary factors influencing the U.S. grocery business. Sales were up 27 percent, but operating income improved only slightly. Two major new products achieved excellent consumer acceptance — Harvest Crunch (similar to 100% Natural Cereal in the U.S.) and Puss 'n Boots Flavour Morsels (similar to Moist Meals in the U.S.). The outlook for the Canadian company is very good.

Toys and Recreational Products Group

Group sales of \$270 million were up 20 percent, but operating income declined by the same percentage.

Under U.S. price controls, future cost increases could not be anticipated in justifying prices. Since prices in the toy industry have traditionally been set at the New York Toy Fair in February, the severe cost pressures of most of 1973 were not offset by price increases. This situation, along with some changes in the product mix, resulted in much narrower margins at both toy companies.

Toys were removed from price controls in March, 1974, and prices have been increased since then to cover very substantial cost increases. Sales in the first six months of the current calendar year (January through June, 1974) were sharply higher than last year, as customers anticipated higher prices and took earlier delivery.

Cost-control programs, maximum effort on controlling inventories, and careful scrutiny of credit accounts are receiving very substantial Group emphasis.

Fisher-Price Toys Division

This Division's 39 percent sales increase for fiscal 1974 indicates the strong consumer acceptance of Fisher-Price Toys for quality, durability, and play value. Though margins slipped substantially, and operating income was about the same as last year, Fisher-Price continues to be a very successful division making a significant contribution to corporate profits.

A strong research and development capability has made Fisher-Price growth possible. In February, 1974, a new line of dolls was introduced, the Division's initial entry into a leading segment of the toy market. The six dolls in the line each have their own names and personalities and were designed with traditional Fisher-Price taste, simplicity and quality. They are being well received and should be a significant factor in broadening Fisher-Price participation in the toy market.

Also introduced in 1974 were three additions to the popular Play Family series of toys — the Castle, A-Frame, and Animal Circus — as well as a new Jack and Jill Pocket Radio and a toy Pocket Camera that contains its own zoo pictures.

The "Crib & Playpen" infant toys, introduced a year ago, have done well and earned a permanent place among Fisher-Price products.

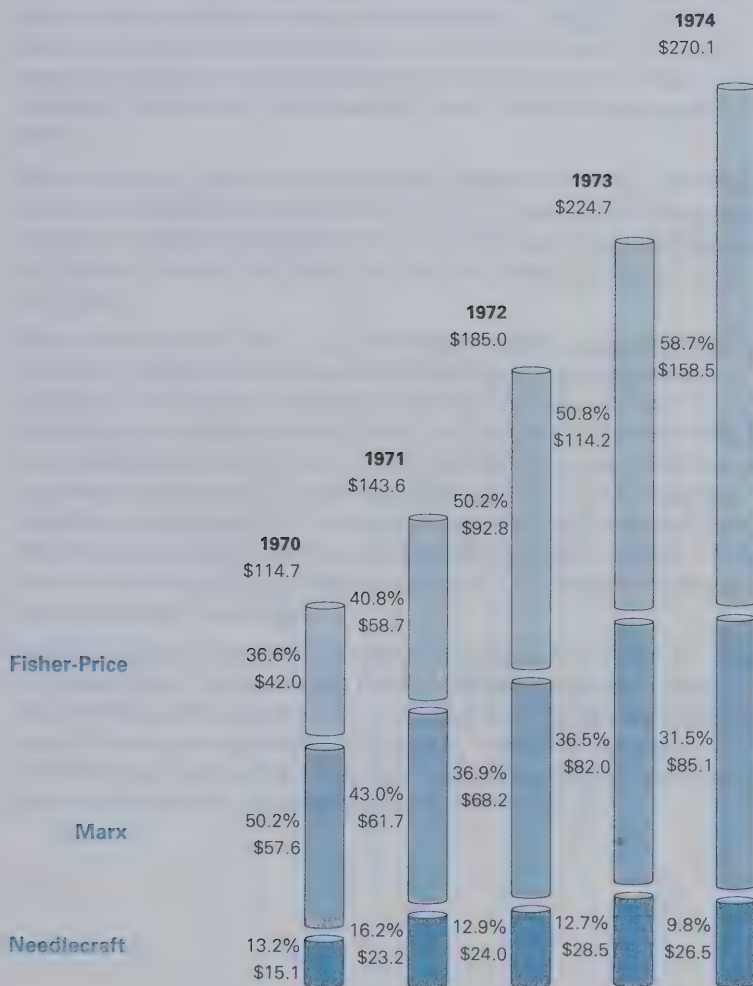
To support the Division's major sales expansion over the last five years there have been substantial additions to production and warehouse facilities. In this period, more than \$40 million has been invested in fixed asset additions to modernize and expand in East Aurora, Medina and Holland, New York; Murray, Kentucky;

Design and quality are most important elements in the products of the three divisions of the Toys and Recreational Products Group – Fisher-Price, Marx, and Needlecraft.



Toys and Recreational Products Group

Sales in Millions of Dollars



Includes the following sales prior to purchase acquisition:

	1970	1971	1972
Fisher-Price	\$ 7.3	—	—
Marx	\$57.6	\$61.7	\$68.2

Brownsville, Texas; Matamoros, Mexico; and Kaulille, Belgium. As construction costs have soared in recent months, these earlier expenditures look very sound in providing scale and efficiency to the growing Fisher-Price business.

Marx Toys Division

Marx sales in fiscal 1974 were up 4 percent, but operating earnings were sharply below the prior year.

Substantial changes have been made in many Marx operations in an effort to improve both sales and profitability. Product varieties have been trimmed toward the objective of basic lines of high quality products with strong identities and continuing appeal. These strengths will support the new products that are introduced each year.

New products under these concepts presented at the 1974 New York Toy Fair in February included the T.V. Tennis and Frenzy table games for children and adults; a new stand-up, home pinball game; the Happy Hopper riding toy; and the Pit Change Charger, a toy racing car.

Needlecraft Division

Fiscal 1974 was a difficult year for Needlecraft. Sales declined 7 percent, and profits fell substantially below year-ago levels. Wool yarn, formerly an important segment of the Division's product line, experienced a significant volume decline resulting from the consumer's change to synthetic yarns. This loss in volume was not offset by the gains in synthetic yarn products, stitchery and needlepoint kits, and the Herrschner's mail order business. Profit margins were adversely affected by Needlecraft's inability — both for competitive and price control reasons — to raise prices enough to recover cost increases.

Needlecraft was acquired two years ago as part of a plan for Quaker participation in the expanding field of creative crafts and other leisure-time activities of adults and children. Though the Division's results have been adversely affected by sales and operating problems, as well as the inflationary economy, current operating plans call for significant improvement in fiscal 1975.

Basic cereals, pet foods in Europe and Australia, and strong specialty product lines in Latin America are the keys to our International Grocery Products business.

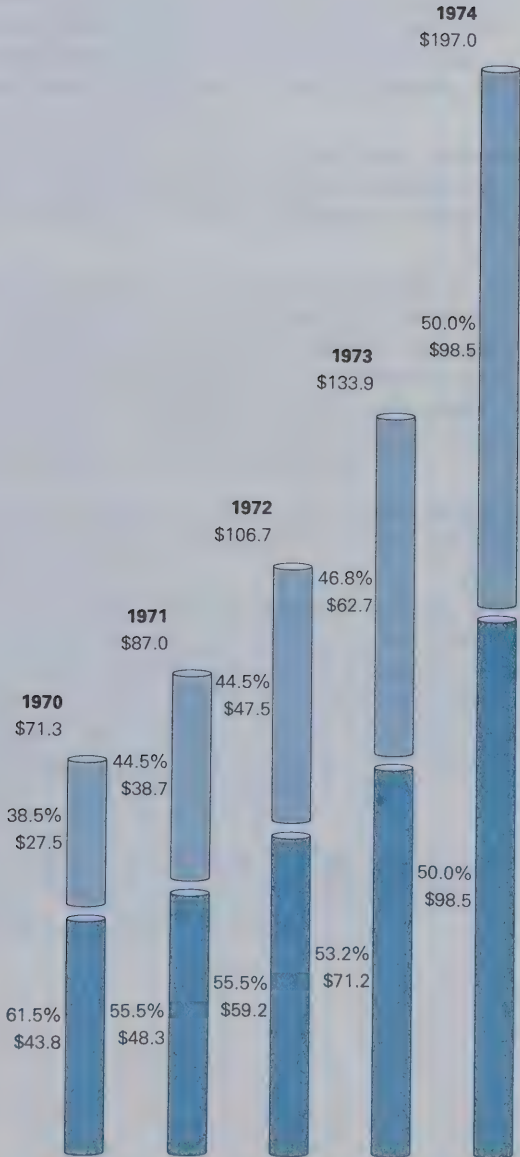


International Grocery Products Group

Sales in Millions of Dollars

Latin America and the Pacific

Europe



International Grocery Products Group

Fiscal 1974 was an excellent year for the International Grocery Products Group. Sales increased 47 percent to \$197 million, and operating income more than doubled. Most of our international subsidiaries shared in the improvement, and the July acquisition of Conservas Coqueiro, S.A., the leading processor of canned sardines in Brazil, also made an important contribution to the Group's progress.

Results from the long-range strategy of emphasizing pet foods for European growth, adding acquisitions and joint-ventures where scale was necessary for viable operations, and gaining optimum performance from longer-established businesses appear to be rewarding. Productivity increases have also been impressive, and have helped counter inflationary pressures.

Europe

Considerable new product activity — mostly in pet foods — occurred in the European sector of the business, where a combination of volume growth and price inflation produced a 38 percent sales increase.

Semi-moist, burger-type dog food was marketed nationally in Denmark, Sweden, the Netherlands, France, Belgium, and the United Kingdom. Semi-moist cat food was introduced in several markets. Sales of existing Quaker canned pet foods and dry cat food were up very significantly in England. Quaker was an early entrant into the rapidly growing pet food business in many areas of Europe, but competitive activity is increasing rapidly.

Ready-to-eat cereal sales were also up well in the United Kingdom, more than making up for a modest decline in hot cereals. Natural Cereal is in limited test markets.

Latin America and the Pacific

Sales for this segment of the International Grocery Products Group increased 57 percent during the year, again reflecting both volume and price increases. Though substantial volume improvements were achieved in all subsidiaries in these regions, the most significant development was the purchase of Conservas Coqueiro, S.A., in Brazil. This is a strong business, and given a continuing good fish supply it should continue to contribute importantly to the International Grocery Products Group's results.

In Mexico, results of Fabrica de Chocolates La Azteca were very good, but earnings were little changed because of severe cost fluctuations and temporary shortages of cocoa.

In Australia our emphasis is on expanding an already well developed pet foods business in a growing market. During fiscal 1974, Quaker was the first manufacturer to introduce semi-moist dog food, and results have been encouraging. Sales increases of all products — pet foods, cereals and mixes — were strong. Profitability improved, but substantial additional progress is still necessary.

The International Grocery Products Group's business is considerably larger and more broadly based than it was a few years ago, and profitability is much improved. Future opportunities are promising, but we are proceeding with some caution in order not to be overextended during a period of world-wide economic uncertainty.

Chemicals Division

Sales of the Industrial and Institutional Products Group, which consists of three diverse business divisions, were up 26 percent to \$131 million. Operating income improved 48 percent.

The Chemicals Division is Quaker's significant non-consumer products business. Because of unique technological and commercial opportunities, Chemicals has become a major growth area for Quaker and will be increasingly important in our overall business.

A substantial sales increase of 26 percent was achieved in fiscal 1974 — to \$71 million, more than half of which is from international operations. Operating income was also up compared to the year earlier, and capital investments were heavy. Highly significant investments of over \$40 million in future production capability were authorized during the year.

The Division has a well-established leadership position in the development and production of furan chemicals — furfural, furfuryl alcohol, and other specialty chemicals that are used in the manufacture of lubricants, foundry castings, rubber and elastomeric materials, and corrosion-resistant equipment.

The Chemicals Division has two distinctive strengths that are contributing importantly to its current results and future growth prospects:

1. Unique and market-leading experience with furan chemicals, which have demonstrable quality and cost advantages in several major industrial growth areas.
2. Chemicals derived from diverse agricultural by-products such as corn cobs and sugar cane waste, which should increase in availability as world food demands grow, as contrasted with chemicals derived from petroleum.

Growth has largely been the result of success at the Division's extensive research and pilot-plant installations in Barrington, Illinois, where aggressive process and application development programs continue. Emphasis is placed on products and technology that will lend economic and ecological advantages to the industries served. Research and development expenditures increased sharply in fiscal 1974, and substantial further increases are planned.

World demand for the Division's products continues to exceed production capability. For this reason, plant and facilities expansions are underway at Houston, Texas; Belle Glade, Florida; and Geel, Belgium. The new plant at Houston, to be completed in 1976,

Specialty chemicals for industry, Magic Pan Restaurants and Burry cookies and crackers are the diverse businesses of this growing Group.



Industrial and Institutional Products Group

Sales in Millions of Dollars



represents Quaker's largest single new-plant commitment of capital. Although significant cost over-runs are now estimated as the result of the recent price advances of steel and chemical equipment, we anticipate an attractive return on this major investment.

Burrry Division

Burrry achieved a good sales increase in fiscal 1974, and earnings were positive, even though they were affected by the commodity cost problems and price controls common to the food industry. Considering these factors, the Division's performance was good.

Sales of Girl Scout Cookies were up significantly, and good improvement also was shown in the food service segment of Burrry.

All Division operations have now been consolidated in Elizabeth, New Jersey, in a move to reduce costs and better serve the eastern markets of Burrry's regional retail cookie and cracker business.

Restaurants Division

There were excellent results in the Company's seventeen wholly owned Magic Pan Restaurants, seven of which were opened during the year. Sales increased sharply, both from the new locations and from greater volume in established locations. Eleven more openings are scheduled for the current fiscal year. In those restaurants where year-to-year comparisons are possible, sales were up very substantially in fiscal 1974 and margins improved.

Magic Pan offers 25 varieties of entree and dessert crêpes and palacsintas, in a decor that presents a unique view of old-world charm. Locations are in large, high-quality regional shopping centers or downtown sections of principal cities (San Francisco, Los Angeles, New York, Chicago, Boston, Denver, Atlanta, Philadelphia, and Dallas).



The key measure of Quaker's ability to progress in an uncertain economic climate is our people — more than 25,400 men and women around the world. Their ability to develop and market products, manage our resources, and seek improvements in productivity is critical to the Company's future success.

The Quaker people on these pages are representatives of their fellow employees, committed to excellence in areas very important to them and to Quaker.

Quality — Bob Huckabone

Quaker and *quality* have been considered synonymous since the Company's founding. In fiscal 1970 the acquisition of Fisher-Price added a new dimension to this heritage. The name Fisher-Price stands for quality toys around the world, and behind that name are people like Bob Huckabone, Quality Control Inspector at the East Aurora, New York, plant.

All phases of toy making come under Bob's close scrutiny — purchased materials, fabrication, finished goods and packaging. On the Play Family Village — just one of about 70 Fisher-Price toys — Bob and his coworkers must inspect more than 200 different parts.



Talent — Carol Bullock

Recognizing and developing the talents of our employees are prime objectives at Quaker, reflected in many personal development programs: individual counseling and training, full-tuition refund, computerized records that can quickly link employee talent and interest with new position opportunities, and an organization climate study program aimed at achieving improved employee-supervisor understanding and relationships.

A graduate of Purdue University's masters program in Industrial Relations and a Phi Beta Kappa, Carol Bullock works to help Quaker employees achieve their maximum potential. As Supervisor of Organization Analysis at Company headquarters, she helps develop programs that match the abilities and aspirations of employees with the Company's needs — a mutually rewarding objective.



Nutrition — John Baumgartner

Quaker is acutely aware of the need to improve nutrition and crop availability in order to meet U.S. and world food requirements. Increasing the protein content of oats — generally the highest in protein of any cereal grain — is one important way to produce an even more nutritious food product. Last year oats produced by farmers participating in Quaker's high-protein oat contract program averaged 2.5 percentage points higher in protein than other oats produced in the same area.

Among his responsibilities, John Baumgartner, Quaker's Field Representative in Minneapolis, coordinates a high-protein oat program on the high school level. Under his direction, more than 350 high school students are each growing five acres of oats on their families' farms this summer and learning what goes into high-protein crop production.



International – Oscar Saenz

Approximately one quarter of Quaker's total dollar sales is outside the United States. Sales of international grocery products have tripled since 1970. Chemicals and toys are also rapidly expanding internationally.

In charge of operations for Quaker's expanding grocery business in Brazil, Oscar Saenz brings to his job a valuable combination of qualifications – Mexican descent and fluency in Spanish and Portuguese as well as prior international experience as Quaker's Operations Manager for cereals in Colombia. His background in production and his understanding of the Latin American economy and people made Oscar the logical choice for bringing together the diverse manufacturing needs of Quaker's cereal and sardine businesses in Brazil.



Loyalty – Rose Hayes

Rose Hayes has dedicated 45 years of service to the Company. Starting as an assembly line worker at the St. Joseph, Missouri, Cereals and Mixes plant, Rose has earned several promotions in the packaging department. She now supervises work schedules for more than 260 employees, matching individual skills with job requirements.

One in five Quaker men and women have 25 years or more of service with the Company. Quaker can be proud of this record for several reasons. Without their loyalty and dedication, which the Company seeks to return, it would be difficult to meet the modern challenges of improving productivity and efficiency.



New Markets – Kenn Koedinger

The Chemicals Division has found many industrial uses for its speciality furan chemicals. Additional applications are under development, with particular emphasis on the foundry industry. World-wide demand for Quaker's furan chemicals currently exceeds supply. Based on this growing demand, \$40 million has been earmarked for new chemicals plant capacity, including a major new furfuryl alcohol plant in Houston, Texas.

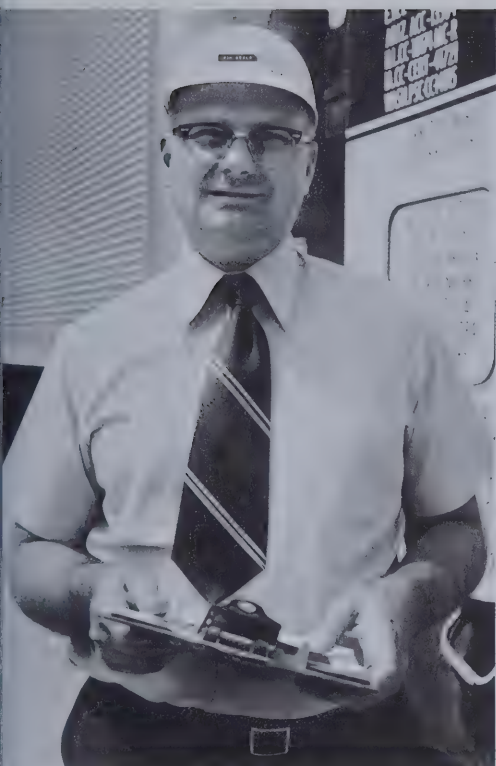
Kenn Koedinger, one of several Quaker foundry specialists around the world, demonstrates to foundries how conversion to the furan process can help increase production, reduce labor costs and make higher quality metal castings. He also helps conduct surveys to determine future demands for QO furfuryl alcohol.



Responsibility — Joe Garcia

Sales personnel in all divisions of the Company are the vital link between Quaker and its customers. One of hundreds of Company salespeople throughout the world, Joe Garcia in fact is The Quaker Oats Company to his wholesale and retail grocery customers in the Lower Rio Grande Valley in Texas.

A graduate of Southwest Texas State University with a major in accounting, Joe joined the Company two years ago and has since been promoted to Account Supervisor. He's now responsible for increasing distribution of Quaker products in stores in his area, gathering market data, and implementing merchandising programs. Recently, Joe developed a computerized method of applying market data for the improvement of sales by wholesalers — one more way in which he helps his customers serve consumers.



Productivity — Jim Beals

Improving efficiency in production and distribution is critical to holding down costs and maintaining profit margins in inflationary times. Whenever cost increases can be overcome by productivity improvements rather than price increases, the consumer and the Company benefit.

Jim Beals joined Quaker eleven years ago as an accounting trainee. After being promoted to assignments in three other Company locations, he was appointed to the ten-member management team formed three years ago to begin operations at our frozen foods plant in Jackson, Tennessee. As administrative manager of this modern facility, Jim achieved substantial cost savings for the Frozen Foods Division in fiscal 1974 through the introduction of more efficient distribution systems.



Involvement — George Jackson

Traditionally, Quaker has lent its support to social progress programs that give employees the opportunity to get involved. From tutoring programs for disadvantaged students to representation on community decision-making boards, thousands of employees help to build Quaker's reputation as a socially concerned company.

George Jackson is one of many dedicated employees who work to improve their communities. Since joining the Company at Chicago headquarters five years ago, George has advanced from employee relations trainee to corporate coordinator of employment opportunity to employee relations supervisor at the Rockford, Illinois, Pet Foods plant. In the Rockford community, George serves on the city-county planning commission, counsels high school dropouts, and raises funds for many worthwhile projects.

Financial Information

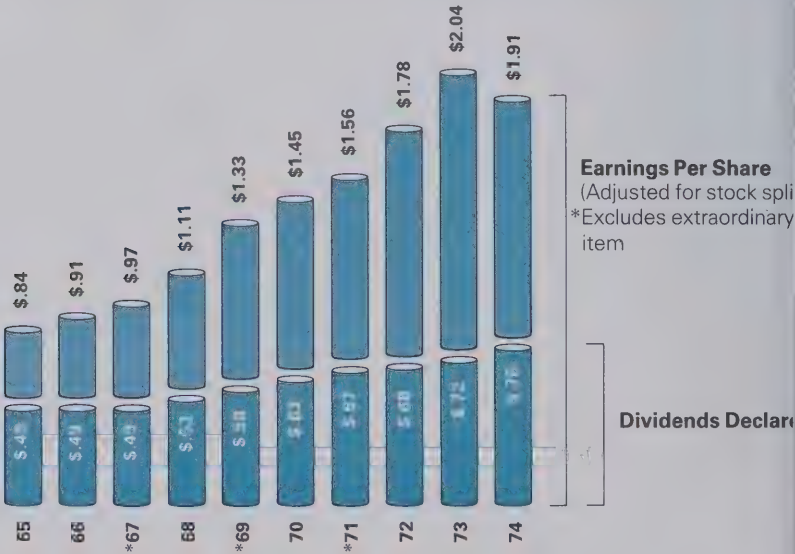
Earnings Per Share Objective

In 1969, the Company established a financial objective of improving per-share earnings an average of at least 10 percent a year over any five-year period, and this continues to be our objective. The goal is stated as a five-year moving average to emphasize that the business is managed principally for long-term results. Most individual years should be more than 10 percent ahead, but some years, and indeed some five-year periods, when there are extraordinary economic circumstances, may be below this objective. The period ending with fiscal 1974 is the first time we have not achieved this earnings improvement goal since it was established.

5-Year Periods Ending June 30	5-Year Average Per-Share Earnings Improvement
1969	12.8%
1970	11.6%
1971	11.5%
1972	13.0%
1973	13.0%
1974	7.8%

Earnings and Dividends

This chart shows actual earnings-per-share data and dividends declared for the last ten fiscal years:



Dividend Increase

The quarterly common share dividend was increased to 19 cents a share, effective with the payment on October 20, 1973. This was the seventh consecutive year in which the dividend was raised.

Sales and Operating Income by Groups

Sales were up sharply in all four Groups last year, reflecting both price and volume increases. Operating income was off in both the Grocery Products Group and the Toys and Recreational Products Group. Operating income for the International Grocery Products Group in fiscal 1974 includes \$1.4 million resulting from the disposition of land not required for future operations.

Year Ended June 30	Millions of Dollars			
	1974	1973	1972	1971
Sales				
Grocery Products Group	\$ 628.9	\$528.1	\$484.1	\$449.6
International Grocery Products Group	197.0	133.9	106.7	87.0
Toys and Recreational Products Group	270.1	224.7	116.8	81.9
Industrial and Institutional Products Group	131.3	104.1	87.6	83.4
Total	<u>\$1,227.3</u>	<u>\$990.8</u>	<u>\$795.2</u>	<u>\$701.9</u>
Operating Income				
Grocery Products Group	\$ 48.3	\$ 51.1	\$ 43.5	\$ 43.2
International Grocery Products Group	14.1	6.8	5.3	5.2
Toys and Recreational Products Group	25.4	31.9	22.8	13.6
Industrial and Institutional Products Group	9.9	6.7	5.6	4.3
Total	<u>97.7</u>	<u>96.5</u>	<u>77.2</u>	<u>66.3</u>
Less interest expense (net)	21.2	11.0	6.6	5.5
Income before income taxes	<u>\$ 76.5</u>	<u>\$ 85.5</u>	<u>\$ 70.6</u>	<u>\$ 60.8</u>

Financing

Shareholders' Equity

Long-Term Debt
Millions of Dollars



The Company's policy is to maintain a strong, flexible financial condition. We make aggressive use of borrowing while at the same time, maintaining an ability to take full advantage of unforeseen investment opportunities.

It is Quaker's objective that the ratio of long-term debt to the total of shareholders' equity and long-term debt be maintained below 35 percent. At June 30, 1974, it was 33.6 percent. The chart shows shareholders' equity and long-term debt at the end of each of the past 5 fiscal years.

In June, 1974, the Company placed a \$25 million 8¾% note, due 1994, with an institutional lender. Proceeds were received prior to year-end and were used to reduce short-term debt. Quaker is also in the process of completing arrangements with the holder of its present \$6 million 3½% notes, due 1977, and \$25 million 6½% notes, due 1994, which will provide \$25 million of new borrowings for takedown in February, 1975. The three loans will be combined into one \$56 million loan at 7.80%, due 1994, deferring \$12.25 million of maturities that would otherwise be due 1975-1979. The effective rate on the new money will be 8¾%. These arrangements for an additional \$50 million long-term debt, with normal retention of earnings, will expand the Company's capital base and provide funds for capital expenditures and increased working capital requirements.

The Company incurs significant short-term borrowings primarily in connection with the seasonal requirements of the U.S. toy business. These requirements peak in the fall as inventories are built up prior to the Christmas season, and decline after Christmas as toy division receivables are collected. In fiscal 1974, domestic short-term borrowings reached about \$90 million in November and were reduced to about \$30 million in January. Short-term requirements in the U.S. are met either in the commercial paper market or from banks, whichever is the least expensive at the time. In general, it is our policy to arrange long-term financing for any of our domestic short-term borrowings that are not cleaned up at the seasonal low point.

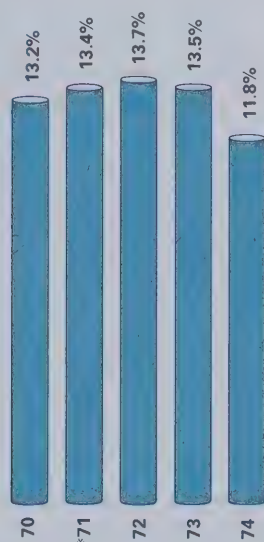
During the past year, a new \$50 million three-year bank revolving credit agreement was signed, which provides for domestic or Eurodollar borrowings at the Company's option. Bank lines of credit were also increased from \$50 million to about \$110 million. None

Return on Shareholders' Equity

of these \$160 million of bank facilities is currently in use. In addition, at June 30 the Company's foreign subsidiaries have unused credit facilities totaling about \$20 million.

The Company emphasizes return on investment objectives in its planning functions. It is recognized that these goals must basically be long-term in nature and that the results of new

investments are often unfavorable to short-term earnings. Even so, we expect our diversified businesses to be able to support a regular flow of substantial new investments on which long-term results are favorable. In fiscal 1974, return on shareholders' equity fell below levels achieved during the previous four years. We recognize the necessity that margins and asset turnovers be improved in the future in order to provide more satisfactory returns on invested capital.



*Excludes extraordinary item

Capital Expenditures

The Company continues to invest substantial amounts to support future growth, although we are proceeding cautiously in fiscal 1975 because of general economic uncertainties. Principal areas of

opportunity for Quaker are convenience foods, pet foods, chemicals, pre-school toys, and restaurants.

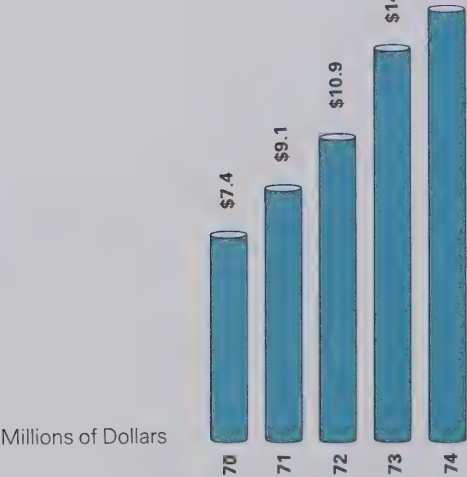
Capital expenditures in fiscal 1974 were \$68.2 million and have increased at an average annual rate of about 20 percent during the past five years.



Millions of Dollars

Research and Development

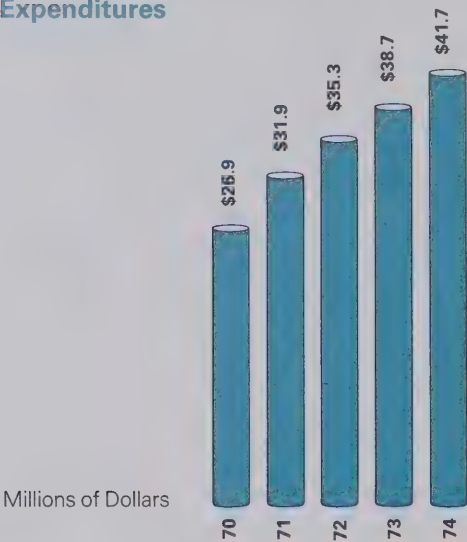
Technical research expenditures include costs of scientific research and new product development, cost reduction innovations, and compliance with extensive government reporting requirements on technical matters. The figures do not include market research or the bulk of quality assurance expenditures, which occur at divisional and plant levels.



Quaker continues a heavy emphasis on technical research, seeking those products that will possess lasting, distinctive consumer benefits as well as new applications of specialty chemicals. These expenses have increased at an average annual rate of more than 19 percent over the last five years. Technical research amounted to \$15.4 million in fiscal 1974.

Advertising Media Expenditures

The Company spends substantial amounts each year on advertising media and production, primarily in connection with the marketing of its grocery and toy products in the United States and abroad. This table shows these amounts for the last five years. Advertising costs are expensed in the year in which they are incurred. In addition to these media and production expenditures, the Company's marketing efforts include significant additional costs for trade promotions and sampling programs which are not included in these figures.



The Quaker Oats Company and Subsidiaries

Consolidated Statement of Income and Reinvested Earnings

Thousands of Dollars

Year Ended June 30

1974

1973

Revenues:

Net sales	\$1,227,345	\$ 990,767
Other income — net	2,507	1,818
	<u>1,229,852</u>	<u>992,585</u>

Costs and Expenses:

Cost of goods sold	914,979	692,723
Selling, general and administrative expenses	215,293	201,460
Interest expense	23,102	12,853
	<u>1,153,374</u>	<u>907,036</u>

Income before income taxes

	76,478	85,549
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Provision for income taxes

	36,600	43,426
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Net income

	<u>39,878</u>	<u>42,123</u>
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Reinvested Earnings:

Balance beginning of year	184,610	187,561
Dividends — preferred stock	(429)	(452)
— common stock	(15,723)	(14,711)
Transfer to common stock re stock split	—	(29,911)
Balance end of year	<u>\$ 208,336</u>	<u>\$ 184,610</u>

Per Common Share: (A)

Net Income	\$1.91	\$2.04
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Dividends Declared	\$.76	\$.72
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Average common shares outstanding	20,675,175	20,465,855
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(A) Adjusted for stock split on September 22, 1972.

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

		Thousands of Dollars	
Assets	June 30	1974	1973
Current Assets:			
Cash		\$ 2,092	\$ 3,038
Marketable securities, at cost which approximates market		9,590	23,316
Receivables (less allowances of \$7,894,000 and \$3,546,000, respectively)		160,129	111,218
Inventories		225,172	169,607
Prepaid expenses		9,295	6,631
Current assets		<u>406,278</u>	<u>313,810</u>
Other Receivables and Investments		5,968	6,903
 Property, Plant and Equipment, at cost:			
Land		8,053	7,276
Buildings and improvements		135,147	113,284
Machinery and equipment		293,766	253,564
		<u>436,966</u>	<u>374,124</u>
Less accumulated depreciation		117,645	102,047
Properties (net)		<u>319,321</u>	<u>272,077</u>
 Intangible Assets:			
Excess of cost over net assets of acquired businesses, less amortization		38,210	30,004
Patents, trademarks and designs, less amortization		6,612	7,276
		<u>\$776,389</u>	<u>\$630,070</u>

See accompanying notes to consolidated financial statements.

The Quaker Oats Company and Subsidiaries

Liabilities and Shareholders' Equity	June 30	Thousands of Dollars	
		1974	1973
Current Liabilities:			
Short-term debt		\$114,695	\$ 65,893
Current maturities of long-term debt		3,998	3,447
Accounts payable and accrued expenses		91,634	78,050
Income taxes payable		7,448	6,501
Dividends payable		4,039	3,823
Current liabilities		221,814	157,714
Long-term Debt, less current maturities		171,427	123,821
Other Liabilities		8,196	6,090
Deferred Income Taxes		36,511	29,650
Shareholders' Equity:			
Preferred, \$50 par value, \$3 cumulative convertible, authorized 147,836 shares; issued 142,104 and 148,165 shares, respectively		7,105	7,408
Common, \$5 par value, authorized 35,000,000 shares; issued 20,948,922 and 20,892,858 shares, respectively		104,745	104,464
Additional paid-in capital		23,882	22,359
Reinvested earnings		208,336	184,610
		344,068	318,841
Less treasury common stock, at cost		5,627	6,046
Shareholders' equity		338,441	312,795
		\$776,389	\$630,070

Consolidated Statement of Changes in Financial Position

	Thousands of Dollars	
Year Ended June 30	1974	1973
Sources of Working Capital:		
Operations:		
Net income	\$ 39,878	\$ 42,123
Depreciation and amortization	26,170	21,114
Deferred income taxes	6,861	7,037
Total from operations	<u>72,909</u>	<u>70,274</u>
Issuance of 600,000 shares of common stock	—	22,627
Proceeds from new long-term debt	53,621	20,188
Increase in other long-term liabilities	2,106	3,820
Sales of properties	1,822	3,904
Common stock issued under stock option plans	1,215	3,848
Total provided	<u>131,673</u>	<u>124,656</u>
Uses of Working Capital:		
Additions to properties	68,213	52,576
Cash dividends declared	16,152	15,163
Decreases in long-term debt	6,015	27,888
Excess of cost over working capital of acquired businesses	13,478	2,673
Other — net	(553)	1,271
Total used	<u>103,305</u>	<u>99,570</u>
Increase in Working Capital:	<u>\$ 28,368</u>	<u>\$ 25,078</u>
Consisting of:		
Cash and marketable securities	\$ (14,672)	\$ 3,019
Receivables — net	48,911	19,750
Inventories	55,565	42,871
Prepaid expenses	2,664	458
Short-term debt	(48,802)	(29,788)
Current maturities of long-term debt	(551)	838
Other current liabilities	(14,747)	(12,071)
Net increase	<u>\$ 28,368</u>	<u>\$ 25,078</u>

See accompanying notes to consolidated financial statements.

The Quaker Oats Company and Subsidiaries

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Consolidation The consolidated financial statements include The Quaker Oats Company and all subsidiaries. All significant inter-company accounts and transactions are eliminated. Investments in 20% to 50% owned companies are stated on the equity basis.

Foreign Translation Foreign currency items are translated into U.S. dollars at year-end exchange rates for assets and liabilities and average annual exchange rates for income items, except properties and intangibles and related depreciation and amortization, which are translated at rates in effect at time of acquisition.

Unrealized translation gains are credited to a reserve, except to the extent that they offset previously recorded losses; unrealized losses in excess of previously established reserves are charged to income.

Gains and losses on forward exchange contracts are recognized in income upon settlement.

Intangibles Excess of cost over net assets of acquired businesses, including \$27,892,000 related to acquisitions prior to November 1, 1970, (principally Fisher-Price Toys) represents the amounts paid in excess of the fair values of the net assets of such businesses, less amortization. Such costs are considered to represent continuing values and are adjusted if reduction of the continuing values of underlying businesses is indicated. As required by current accounting rules, all such costs resulting from acquisitions after October 31, 1970, are amortized over periods not in excess of 40 years. Amortization for 1974 and 1973 was \$618,000 and \$57,000, respectively.

Costs incurred in acquiring patents, trademarks and designs are amortized on a straight-line basis over their estimated useful lives. Amortization for 1974 and 1973 was \$781,000 and \$914,000, respectively.

Inventories Inventories are based on physical quantities priced at the lower of cost (first-in, first-out for toys and recreational products and principally average annual cost for other products) or market.

Depreciation and Properties Depreciation is computed using the straight-line method over the estimated useful lives of the properties. For tax purposes, depreciation is computed using accelerated rates. At the present time, depreciation for tax purposes exceeds straight-line depreciation, and deferred taxes are provided.

The composite method is used for depreciation and only abnormal gains and losses on sales or abandonments of property are included in income.

Research and Development Costs are expensed as incurred.

Advertising Costs are expensed as incurred.

Tax Credits Investment tax credits are deferred and amortized over the estimated useful lives of the related assets. At June 30, 1974, \$3,903,000 of deferred tax credits are included in Deferred Income Taxes.

Undistributed Foreign Earnings Except for minor amounts, no Federal income taxes have been provided on the undistributed net income of foreign subsidiaries since these amounts are expected to be permanently invested in those countries.

Pension Plans The provision charged to income each year is sufficient to cover normal costs of the plans of the Company and its subsidiaries and, for the principal plans, amortization of prior service costs over 40 years or less. Pension costs totaled \$6,787,000 in 1974 and \$6,510,000 in 1973 and are funded currently. Pension funds are in excess of the actuarially computed value of vested benefits.

Income Per Share Net income per common share is based on the weighted average shares outstanding during 1974 and 1973, respectively. Dilution resulting from the exercise of stock options presently outstanding and conversion of preferred stock is not significant.

Foreign Operations

Summarized financial information, included in the Consolidated Financial Statements, follows:

	Thousands of Dollars	
	1974	1973
Net assets:		
Canada	\$ 22,951	\$ 16,433
Europe	39,252	33,471
Latin America and Pacific	43,943	25,903
Net sales:		
Canada	\$ 81,228	\$ 57,440
Europe	145,033	93,727
Latin America and Pacific	101,641	69,699
Reinvested earnings:	\$ 52,397	\$ 41,326

In 1974 the net exchange and translation gain, including gains of \$339,000 from settled forward exchange contracts, amounted to \$613,000 and was credited to income. The reserve for unrealized translation gains, included in Other Liabilities, decreased by \$1,473,000 during the year and at June 30, 1974 is \$1,290,000. In 1973, the net exchange and translation gain was not significant and the reserve for unrealized translation gains increased by \$1,866,000.

Acquisitions Needlecraft Corporation of America, Inc., a manufacturer and distributor of yarns, needlecraft kits, etc., with net assets, at time of acquisition, of approximately \$4,500,000, was acquired in July, 1972, by issuance of 637,220 shares (restated for stock split) of the Company's common stock, in a transaction accounted for as a pooling of interests.

In July, 1972, the Company acquired Steinmeier & Co., N.V. (a Dutch toy manufacturer), and in April, 1973, acquired Tempus S.R.L. (a Venezuelan laundry products manufacturer) for approximately \$2,243,000 in cash, in purchase transactions. Results of operations of these businesses, which are not material, are included in the Consolidated Statement of Income from dates of acquisition. The related excess of cost over fair values of net assets acquired of Tempus amounting to \$1,093,000 is being amortized over ten years.

In July, 1973, Conservas Coqueiro S.A. (a Brazilian sardine processor) was acquired by the Company for \$14,503,000 in cash in a purchase transaction. The results of operations of this business, which are not subject to income taxes, are included in the Consolidated Statement of Income from the date of acquisition. The related excess of cost over fair values of net assets acquired of \$8,212,000 is being amortized over 40 years. Actual results for 1974 and pro-forma results for 1973 of the Company and Conservas Coqueiro S.A., after 1973 adjustment for depreciation, amortization of goodwill and interest on debt, are as follows:

	Thousands of Dollars	
	1974	1973
Net sales	\$1,227,345	\$1,001,060
Net income	\$39,878	\$43,711
Net income per common share	\$1.91	\$2.11

Shareholders' Equity **Stock Options** At June 30, 1974, 667,951 unissued shares of common stock were reserved for issuance upon the exercise of outstanding stock options, and an additional 452,980 unissued shares were available as of that date for granting additional options. Options are granted at not less than fair market value at date of grant. Option prices range from \$30.13 to \$42.82 per share. During 1974, options covering 176,995 shares were granted at prices ranging from \$30.13 to \$31.00 per share, options for 41,076 shares were exercised, and options for 45,694 shares were terminated.

Preferred Stock Each \$3 cumulative preferred share, redeemable by the Company at \$58 per share, is convertible at the holder's option into 2.475 shares of common stock. There were 6,061 shares of preferred stock converted into common during 1974 and 10,734 shares during 1973. At June 30, 1974, there were 351,707 shares of common stock reserved for conversion of the \$3 cumulative preferred stock. Preference stock of 1,500,000 shares without par value is authorized but unissued.

Reinvested Earnings Under the most restrictive terms of the various note agreements in effect at June 30, 1974, \$59,628,000 of reinvested earnings, as of June 30, 1974, was not available for payment of cash dividends and/or certain other distributions to preferred and common shareholders and minimum working capital of \$150,000,000 must be maintained.

Capital Accounts Changes in Common stock, Additional paid-in capital and Treasury common stock during 1973 and 1974 are summarized as follows:

	Amounts in Thousands of Dollars					
	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Treasury Common Stock Shares	Treasury Common Stock Amounts	
Balance, June 30, 1972	13,421,022	\$ 67,105	\$ 3,350	187,917	\$6,346	
Stock options exercised and conversions of preferred	146,646	733	3,093	(804)	(23)	
3-for-2 stock split September, 1972	6,725,190	33,626	(3,968)	89,648	—	
Additional stock issuance November, 1972	600,000	3,000	19,622	—	—	
Transfer of common stock to trustee of profit sharing plan	—	—	262	(8,200)	(277)	
Balance, June 30, 1973	20,892,858	104,464	22,359	268,561	6,046	
Stock options exercised and conversions of preferred	56,064	281	1,237	—	—	
Transfer of common stock to trustee of profit sharing plan	—	—	286	(18,647)	(419)	
Balance, June 30, 1974	<u>20,948,922</u>	<u>\$104,745</u>	<u>\$23,882</u>	<u>249,914</u>	<u>\$5,627</u>	

Debt Short-Term Debt

	Thousands of Dollars	
June 30	1974	1973
Notes payable to banks		
Parent company	\$ —	\$ 9,922
Foreign subsidiaries	34,002	11,763
Commercial paper		
Dealer placed	64,401	44,208
Master trust notes	16,292	—
	<u>\$114,695</u>	<u>\$ 65,893</u>

The weighted average interest rate for notes payable to banks and commercial paper, outstanding at June 30, 1974, was 12.1% and 10.5%, respectively. The weighted average interest rate on the average amounts outstanding during the year was 10.3% for notes payable to banks and 9.7% for commercial paper. During 1974 the aggregate weighted average amount of short-term debt outstanding was approximately \$98,000,000 and the maximum month-end outstanding balance was \$140,000,000.

(Notes continued on following page.)

Long-Term Debt

	Thousands of Dollars	
June 30	1974	1973
3½ % Notes, \$2,000,000 due annually through 1977	\$ 6,000	\$ 8,000
Revolving credit notes, due 1979 (interest at ½ of 1% above the prime rate)	40,000	14,200
Note payable, due 1980 (interest at 1% above the prime rate, non-callable until July 18, 1975)	20,188	20,188
6½ % Notes, \$1,250,000 due annually from 1975 through 1994	25,000	25,000
8¾ % Note, \$1,665,000 due annually from 1980 through 1994	25,000	—
7.70% Sinking fund debentures, \$1,800,000 due annually from 1977 through 2001	50,000	50,000
Capitalized lease obligations	1,795	865
Obligations of foreign subsidiaries	7,442	9,015
	175,425	127,268
Less: Current maturities of long-term debt	3,998	3,447
	<u>\$171,427</u>	<u>\$123,821</u>

The 7.70% debentures may be called at any time at prices decreasing from 106.8% currently to 100% in 1996, except that until June 15, 1981 such redemption cannot be made from the proceeds of any refunding operation having an interest cost of less than 7.70%.

The 8¾ % note may be called at any time at prices decreasing from 108.75% currently to 100% after July 1, 1993, except that until July 1, 1984 no prepayment may be made from the proceeds of any refunding operation having an interest cost of less than 8¾ %.

Aggregate required payments in the years 1975 through 1979 on long-term debt, included in the June 30, 1974, Consolidated Balance Sheet, are: \$3,997,000, \$8,460,000, \$5,671,000, \$3,573,000 and \$43,596,000, respectively.

The Company is in the process of finalizing arrangements with the holder of its present \$6,000,000, 3½ % notes and the \$25,000,000, 6½ % notes which will provide \$25,000,000 of new borrowings in February, 1975. The two existing loans and the additional \$25,000,000 will be combined into one \$56,000,000 loan at 7.80% due 1994.

The effective interest rate on the new \$25,000,000 borrowing will be 8¾ %.

Aggregate required payments in the years 1975 through 1979 on long-term debt, reflecting the proposed agreement, would be: \$747,000, \$5,210,000, \$2,421,000, \$2,323,000 and \$42,346,000, respectively.

The Company has two revolving credit agreements. One agreement provides for revolving borrowings from banks of up to \$40,000,000 at the option of the Company until June 30, 1975. On or before that date the Company has the option, which it expects to exercise, to convert the \$40,000,000 to a term loan due June 30, 1979. The second agreement, none of which has been utilized at June 30, 1974, provides for \$50,000,000 in either domestic or Eurodollar borrowings at the Company's option and expires June 30, 1977. Both agreements require a commitment fee of ½ of 1% for any unused portion.

The Company, in addition to the unused \$50,000,000 revolving credit agreement, has approximately \$110,000,000 available in unused lines of credit to meet general corporate purposes. The Company's foreign subsidiaries have unused lines of credit of approximately \$20,000,000.

The Company has informal arrangements with certain banks to maintain balances in compensation for credit facilities and other banking services. These compensating balance arrangements, which total about \$12,600,000, are based on the average annual amount on deposit according to bank records and impose no restrictions upon the Company's withdrawal of funds. At certain other banks, compensation for credit facilities is either on a fee basis or reflected in the interest rate on borrowings.

Leases

The Company and its subsidiaries lease certain equipment and operating properties under non-cancellable leases which expire at various dates through 2001. Certain of these leases are non-capitalized financing leases which are defined, by the Securities and Exchange Commission, as those which either cover 75% or more of the economic life of the leased property or contain terms that provide the lessors with a full recovery of the fair value of the leased property plus a reasonable return. However, since none of the leases contain terms that result in the creation of a material equity in the leased property, they are not recognized as assets and liabilities under generally accepted accounting principles and, therefore, have not been capitalized.

Total rental expense for 1974 and 1973 was:

	Thousands of Dollars	
	1974	1973
Non-capitalized financing leases	\$ 1,389	\$ 1,159
Other	11,706	8,588
	<u>\$13,095</u>	<u>\$ 9,747</u>

Future minimum annual rentals on non-cancellable leases in effect at June 30, 1974 are:

	Thousands of Dollars				Total
Fiscal Years	Financing (Primarily Office Equipment)	Operating			
		Buildings	Distribution Equipment	Other	
1975	\$1,438	\$4,720	\$998	\$185	\$7,341
1976	1,390	3,969	740	133	6,232
1977	1,326	3,495	463	98	5,382
1978	768	1,909	169	50	2,896
1979	97	1,698	107	33	1,935
1980-1984	—	5,871	—	122	5,993
1985-1989	—	112	—	108	220
1990-1994	—	—	—	108	108
Thereafter	—	—	—	931	931

Subleases, contingent rentals, and present value, and its effect on net income, of non-capitalized financing leases are not significant.

Income Taxes

Provision for income taxes consists of:

	Thousands of Dollars	
	1974	1973
Currently payable —		
Federal	\$18,635	\$27,310
State	2,746	3,664
Foreign	8,358	5,580
Deferred — (related primarily to depreciation)	5,265	5,625
Deferred investment tax credit net	1,596	1,247
	<u>\$36,600</u>	<u>\$43,426</u>

A more favorable mix of domestic and international earnings in 1974 (including a \$1,400,000 tax-free disposition of land not required for future operations) resulted in a lower effective income tax rate compared to 1973. There are no significant items, in either year, accounting for the difference between the basic U.S. Federal income tax rate of 48% and the Company's effective tax rate.

Litigation

The Federal Trade Commission, in a Complaint filed on April 26, 1972, alleged that the ready-to-eat cereal industry is concentrated in and controlled by four industry members, including the Company, which members have diminished competition by raising entry barriers through various practices such as brand proliferation, excessive and misleading advertising, exclusionary shelf-space programs, and acquisitions. The Company has denied these charges and the matter is currently in the pretrial stage with trial expected some time in 1975. In the opinion of counsel, the outcome of the litigation will have no significant adverse effect on the Company's business.

Auditors' Report

To the Shareholders of
The Quaker Oats Company:

We have examined the consolidated balance sheet of The Quaker Oats Company (a New Jersey corporation) and Subsidiaries as of June 30, 1973, and June 30, 1974, and the related consolidated statements of income and reinvested earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of The Quaker Oats Company and Subsidiaries as of June 30, 1973, and June 30, 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois
August 22, 1974

Ten-Year Financial Summary

Year Ended June 30 (B)	Thousands of Dollars		
	1974	1973	1972
Net sales	\$1,227,345	\$990,767	\$795,240
Income before extraordinary item	39,878	42,123	35,614
Extraordinary (charge) credit	<u>—</u>	<u>—</u>	<u>—</u>
Net income	39,878	42,123	35,614
Dividends: preferred stock	429	452	484
common stock	15,723	14,711	13,006
Reinvested earnings	208,336	184,610	187,561
Current assets	406,278	313,810	247,708
Current liabilities	221,814	157,714	116,690
Net working capital	184,464	156,096	131,018
Net fixed assets	319,321	272,077	243,928
Long term debt, less current maturities	171,427	123,821	131,521
Shareholders' equity	338,441	312,795	259,615
Per common share: (A)			
Income before extraordinary item	\$ 1.91	\$ 2.04	\$ 1.78
Extraordinary (charge) credit	<u>—</u>	<u>—</u>	<u>—</u>
Net income	\$ 1.91	\$ 2.04	\$ 1.78
Dividends declared	\$.76	\$.72	\$.68

(A) Adjusted for stock splits

(B) Results for 1972 through 1968 have been restated to reflect the July, 1972 merger with Needlecraft Corporation of America Inc., recorded as a pooling of interests. Prior years have not been restated since effect is not material.

The Quaker Oats Company and Subsidiaries

1971	1970	1969	1968	1967	1966	1965
\$701,862	\$612,845	\$562,277	\$554,199	\$555,133	\$498,358	\$461,288
31,107 (5,886)	28,659 —	25,998 (1,092)	21,479 —	18,782 898	17,572 —	16,311 —
<u>25,221</u>	<u>28,659</u>	<u>24,906</u>	<u>21,479</u>	<u>19,680</u>	<u>17,572</u>	<u>16,311</u>
490 12,636	490 11,737	495 10,704	507 9,710	528 8,868	568 8,864	581 8,822
165,437	153,342	140,641	130,778	118,890	108,606	100,466
199,906 89,257	185,808 94,291	149,761 68,538	149,314 65,286	137,461 57,922	134,190 52,241	125,040 43,590
<u>110,649</u>	<u>91,517</u>	<u>81,223</u>	<u>84,028</u>	<u>79,539</u>	<u>81,949</u>	<u>81,450</u>
200,436	181,344	142,640	129,107	116,208	108,878	98,980
96,421	68,845	18,882	21,399	22,892	25,179	25,392
232,047	217,738	197,234	184,638	169,237	160,301	152,029
\$ 1.56 (.30)	\$ 1.45 —	\$ 1.33 (.06)	\$ 1.11 —	\$.97 .05	\$.91 —	\$.84 —
<u>\$ 1.26</u>	<u>\$ 1.45</u>	<u>\$ 1.27</u>	<u>\$ 1.11</u>	<u>\$ 1.02</u>	<u>\$.91</u>	<u>\$.84</u>
\$.67	\$.63	\$.58	\$.53	\$.49	\$.49	\$.49

Directors

Silas S. Cathcart

Chairman and Chief Executive Officer
Illinois Tool Works, Inc.
Chicago, Illinois

***John D'Arcy, Jr.**

Senior Vice President
Operations and Administration

***W. Fenton Guinee**

Senior Vice President
Finance and Planning

Richard D. Harrison

President and Chief Executive Officer
Fleming Companies, Inc.
Oklahoma City, Oklahoma

***Augustin S. Hart, Jr.**

Group Vice President
International Grocery Products

Dr. Lawrence A. Kimpton

Formerly Chancellor
University of Chicago

***Kenneth Mason**

Group Vice President
Grocery Products

***Archibald McClure**

Group Vice President
Industrial and Institutional Products

Donald E. Meads

Chairman and Chief Executive Officer
Certain-teed Products Corporation
Valley Forge, Pennsylvania

G. G. Michelson

Senior Vice President
Macy's New York
New York City

Merrill E. Olsen

Formerly Vice President and
General Counsel

Dr. Walter J. Salmon

S. S. Kresge Professor of Marketing
Harvard Business School
Boston, Massachusetts

***Frank C. Schell, Jr.**

Group Vice President
Toys and Recreational Products

Gilbert H. Scribner, Jr.

President, Scribner & Co.
Chicago, Illinois

***Robert D. Stuart, Jr.**

President and Chief Executive Officer

***Robert N. Thurston**

Senior Vice President
Corporate Affairs

Arthur M. Wood

Chairman and Chief Executive Officer
Sears, Roebuck and Co.
Chicago, Illinois

Audit Committee

Mr. Wood, Chairman; Messrs. Meads and Salmon

Compensation and Stock Option Committee

Mr. Scribner, Chairman; Messrs. Cathcart, Harrison, and Kimpton

Public Responsibility Committee

Mr. Cathcart, Chairman; Mrs. Michelson, Messrs. D'Arcy, Kimpton, Stuart, and Thurston

*Member of the Executive Committee

**Chief Executive
Officer**

Robert D. Stuart, Jr.
President

Corporate Staff

**Operations
and Administration**

John D'Arcy, Jr.
Senior Vice President

Thomas B. Bartel
Vice President — Corporate Personnel

Sam H. Flint
Vice President — Corporate Operations

**Finance
and Planning**

W. Fenton Guinee
Senior Vice President

Robert A. Bowen
Vice President and Corporate Controller

Richard D. Denison
Vice President — Corporate Planning and Analysis

Peter B. Fritzsche
Vice President — Corporate Business Development

Richard D. Jaquith
Treasurer

Herbert E. Trenning
Assistant Treasurer

Corporate Affairs

Robert N. Thurston
Senior Vice President

Jack T. Redwine
Vice President and General Counsel

Luther C. McKinney
Vice President and Special Counsel

William F. Debelak
Secretary

Louis J. Mallardi, Jr.
Assistant Secretary

Joann A. Pitcher
Assistant Secretary

Howard J. Thomas, Jr.
Assistant Secretary

All are corporate officers.

Profit Center Management

Grocery Products Group

***Kenneth Mason**
Group Vice President

***Henry T. Chandler**
Vice President
Sales and Distribution

Raymond C. Eggleston
Vice President and Controller

***Samuel T. Gentles**
Vice President — Packaging Services

Herbert H. Johnson
President — Wolf Brand Products

***Robert O. Nesheim**
Vice President
Research and Development

Paul R. Pearce
Vice President — Personnel

***Royce S. Ramsland**
Vice President
Purchasing Services

Lois I. Ross
Vice President
Consumer Services

Dudley Ruch
Vice President
Marketing Research

Robert E. Smith
Vice President
Quality Assurance

***Jack M. Young**
Vice President
Marketing Services

Industrial and Institutional Products Group

Chemicals Division

Burry Division

***Archibald McClure**
Group Vice President

***Leonard W. Steiger, Jr.**
Vice President and
General Manager

***Alan R. Ryan**
Vice President and
General Manager

Cereals and Mixes Division

***William D. Smithburg**
Vice President and
General Manager

J. Byron Felter, Jr.
Vice President and
General Manager
Corn Products

George J. Yapp
Vice President — Operations

Pet Foods Division

David R. Nogle
Vice President — Operations

Hedric E. Rhodes
Vice President
Product Management

Frozen Foods Division

***Richard H. Glantz**
Vice President and
General Manager

The Quaker Oats Company of Canada AdCom

***Frank J. Morgan**
President

Mitchell A. Seltzer
President

Magic Pan, Inc.

***Frederick D. Montgomery**
President

*Corporate Officer

Profit Center Management

International Grocery Products Group

***Augustin S. Hart,**
Group Vice President

***Paul E. Price**
Vice President and
General Manager

***Anthony J. Dimino**
Vice President and Director
Mexican Grocery Products

***Ronald G. Lagden**
Vice President and Director
European Grocery Products

Toys and Recreational Products Group

***Frank C. Schell, Jr.**
Group Vice President

Fisher-Price Toys Division

***Henry H. Coords**
President

Harvey W. Busch
Vice President
Planning and Information Systems

Robert H. Hicks
Vice President
Research and Development

Edward H. Nagel
Vice President and
Controller

Norman G. Schuller
Vice President
Engineering

Charles J. Weinschreider
Vice President
Marketing

John Zahorjan
Vice President
Operations

Marx Toys Division

Jack H. Asthalter
President

Richard L. Harsch
Executive Vice President

J. Robert S. Conybeare
Vice President—Marketing

Edward L. Kelly
Vice President
Sales Administration

Frank Rice
Vice President
Research and Development

Chester W. Russ
Vice President and Controller

Frank J. Urbancic
Vice President
Operations

Needlecraft Division

Lowell S. Fixler
President

Edward Cowell
Vice President
Manufacturing

Vincent W. Goeltz
Executive Vice President
Herrschners, Inc.

*Corporate Officer

Corporate Headquarters

Merchandise Mart Plaza, Chicago, Illinois 60654

U.S. Transfer Agents and Registrars

The First National Bank of Chicago

One First National Plaza, Chicago, Illinois 60670

The Chase Manhattan Bank

One Chase Manhattan Plaza, New York, New York 10015

Dividend Disbursing Agent

The First National Bank of Chicago

Canadian Transfer Agent

National Trust Company, Limited

21 King Street East, Toronto 1, Ontario

Canadian Registrar

Crown Trust Company

302 Bay Street, Toronto, Ontario

Auditors

Arthur Andersen & Co.

69 West Washington Street

Chicago, Illinois 60602

Shares Listed

New York Stock Exchange — Midwest Stock Exchange

Pacific Coast Stock Exchange — The Toronto Stock Exchange

The Stock Exchange, London — Amsterdam Stock Exchange

Ticker Symbol: OAT

Annual Meeting

Shareholders are cordially invited to attend the Company's Annual Meeting, which will be held at 9 a.m., Wednesday, November 13, 1974, in the Assembly Room, sixth floor, The Northern Trust Company, 50 South LaSalle Street, Chicago, Illinois. A notice of this meeting together with the form of proxy and proxy statement will be mailed to shareholders on or about October first at which time proxies will be solicited by management.

SEC Form 10-K

Our Form 10-K report, filed annually with the Securities and Exchange Commission, is available on request. It may be obtained by writing to: Office of the Secretary, The Quaker Oats Company, 345 Merchandise Mart Plaza, Chicago, Illinois 60654.

The Quaker Oats Company
Merchandise Mart Plaza, Chicago, Illinois 60654